



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Casey County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Casey County Fiscal Court for the fiscal year ended June 30, 2012. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Fiscal Court should review and update County Administrative Code annually. During our review of payroll and expenditures, we noted the administrative code was out of date with what is actually happening within the county.

KRS 68.005(2) states "The fiscal court shall review the county administrative code annually during the month of June and may by a two-thirds (2/3) majority of the entire fiscal court amend the county administrative code at that time. The county judge/executive may at other times prepare and submit amendments to the code for the approval of a majority of the fiscal court.

We recommend the Fiscal Court review and update the County Administrative Code for the following:

- Personnel and payroll including compensated absences.

- Procurement procedures.
- Any new policies and procedures.

County Judge/Executive Wright's response: The official did not respond.

The Fiscal Court should improve purchase and procurement procedures. We tested one hundred twenty-five (125) expenditures from all of the Fiscal Court's budgeted funds and noted the following exceptions:

- Eight (8) invoices were not cancelled to prevent duplicate payments.
- Two (2) payments were not paid within thirty (30) working days.
- Two (2) credit card monthly statements were missing.
- Three (3) vendor invoices for road materials/paving were missing load/haul tickets to support vendor invoices.
- One (1) purchase order was dated subsequent to the date paid.
- Seven (7) invoices were cancelled incorrectly.

All invoices should be cancelled when paid to prevent duplicate payments. All original vendor invoices should be maintained including any supporting documentation which includes road materials load/haul tickets. All purchase orders should be approved and issued before the purchases are made or the work or service is performed. All credit card monthly statements should be maintained as support for the expenditure. All expenditures should be paid within thirty (30) working days.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, Fiscal Court is exposing public resources to potential misstatements and/or fraud.

KRS 65.140 states that "unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor". This statute further states "an interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved each month or fraction thereof after the thirty (30) working days which follow receipt of vendor's invoice by the purchaser."

We recommend Fiscal Court maintain all original vendor invoices including any supporting documentation, cancel actual invoices upon payment to prevent duplicate payments, maintain all credit card monthly statements, and approve and issue purchase orders before purchases are made or the work or service is performed. We also recommend the Fiscal Court pay all expenditures within thirty (30) working days in compliance with KRS 65.140.

County Judge/Executive Wright's response: Have corrected this.

The Jail Canteen lacks adequate segregation of duties. A lack of segregation of duties exists over all jail canteen accounting functions. The Jailer's bookkeepers receive the mail, collect money, issue receipts, prepare and deposit receipts, and write checks with no documented oversight by the Jailer. No bank reconciliations on bank accounts are prepared or reviewed. Adequate segregation of duties would prevent the same person or persons from having a significant role in the receiving processing, recording, and reporting of receipts and disbursements. The Jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases.

We recommend the Jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. We also recommend the Jailer require two signatures on checks with one being the Jailer. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented with date and initials.

County Jailer Miller's response: This has been a recurring recommendation by the auditors but due to us being a small county and have limited funds I the jailer feels that the number of people that works with canteen is what the jail financially can support. We have been using the two signatures since last audit and have started using two line checks that was recommended by audit.

County Judge/Executive Wright's response: The official did not respond.

The Jailer should prepare an accurate annual Jail Canteen financial report. During our review of the Jail Canteen, we noted the individual responsible for accounting and reporting functions did not properly record all financial transactions in the accounting records. Therefore, the annual Jail Canteen financial report was not prepared properly. For fiscal year ended June 30, 2012, the financial report required material adjustments to properly report its operations.

We recommend the Jailer ensure the Jail Canteen receipts and disbursements are properly recorded and accounted for and the annual Jail Canteen financial report is accurate

County Jailer Miller's response: The jail has implemented all the recommendations from last audit which was conducted late last year. This audit was conducted within a couple months after last audit and not enough time had elapsed from prior audit for all issues to be resolved. We have new staff and new accounting system which has resolved these issues. The reason for the error in the reports was we were using two different vendors and the one vendor was not reporting their reports in a timely manner.

County Judge/Executive Wright's response: The official did not respond.

The Jailer should maintain accurate accounting records for the Jail Canteen account. During Auditor's testing of the Jail Canteen Account, we noted the following deficiencies:

- Daily checkout sheets did not include sufficient detail of receipts collected.
- Daily checkout sheets were missing for August 2011, May 2012 and June 2012.

- Receipts journal did not include sufficient detail of receipts collected.
- Disbursements journal did not include all disbursements paid to vendors.
- Disbursements journal did not include sufficient detail of disbursements.
- Monthly bank reconciliations were not prepared.

The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Detailed Daily Checkout Sheet.
- Detailed Receipts Journal.
- Detailed Disbursements Journal.
- Jail Commissary Summary and Reconciliation.

We recommend the Jailer comply with the above requirements by preparing detailed daily checkout sheets, posting detailed receipts daily to a receipts journal, and reconciling the daily checkout sheets to daily deposits and receipts journal, posting daily disbursements to a disbursement journal indicating what the disbursement is for, and preparing monthly bank reconciliations. All these records should be reviewed periodically by a responsible individual and review documented by initials and date.

County Jailer Miller's response: Since the last audit the current audit was conducted and not enough time had passed in order to get new accounting system and the past recommendations of audit to be implemented before the next audit was conducted. These issues have been resolved.

County Judge/Executive Wright's response: The official did not respond.

Internal controls over Jail Canteen disbursements should be strengthened. During our testing of forty-one (41) Jail Canteen disbursements, we noted the following deficiencies:

- Twenty-six (26) invoices showed no evidence of approval for payment.
- Seven (7) invoices were not cancelled to prevent duplicate payments.
- Twenty-two (22) disbursements for payment were not posted to a disbursements ledger.
- Only one signature on checks is required.
- Four (4) missing invoices.
- \$3,566 in missing purchase receipts for the John Deere Charge Account.

We recommend that all invoices be approved before payment and the approval should be documented. All invoices should be cancelled (check number and date paid) to prevent duplicate payments. In addition, all disbursements should be posted to a disbursements ledger and the Jailer should require two signatures on checks with one being the Jailer. We further recommend that all purchase receipts for charges made to either credit cards or charge accounts be maintained and included with each monthly statement.

County Jailer Miller's response: Once again due to rapid back to back audits these issues had been recommended in prior audit and had been addressed but sufficient time had not elapsed before current audit had occurred and is reflected in this audit. These recommendations has been implemented and corrected. We are only using one software vendor not multiple which was causing us issues with the reporting deadlines.

County Judge/Executive Wright's response: The official did not respond.

The Fiscal Court should not pay the Dog Warden's salary in addition to contract labor costs. During our review of expenditures and payroll, we noted the Dog Warden was receiving a payroll check for which he received a W-2, and received a \$400 a month expense allowance for which he received a 1099. The Fiscal Court can either hire an individual as a county employee or hire the individual as contract labor but not both.

We recommend the Fiscal Court implement one of the following options:

- Increase the Dog Warden's salary to include the \$400 a month expense allowance and include on the employees W-2;
- Keep the Dog Warden's payroll salary the same and require the Dog Warden to prepare a travel/expense voucher at least monthly and turn in receipts for reimbursement

County Judge/Executive Wright's response: The official did not respond.

The Fiscal Court should maintain proper records for the Public Properties Corporation Judicial Center Fund. Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC), this entity is reported as a blended component unit of the Fiscal Court. During our review of cash we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2012 for PPC's Judicial Center Fund.

We recommend the Fiscal Court prepare and maintain ledgers for receipts and disbursements for the PPC's Judicial Center Fund. We also recommend that bank reconciliations be prepared monthly on all PPC bank accounts. We further recommend the Fiscal Court prepare end of the year financial statements for the PPC's Judicial Center Fund.

County Judge/Executive Wright's response: Will be corrected.

The Fiscal Court should strengthen internal controls over payroll. During our review of payroll, we noted the following:

- Numerous personnel files did not include all necessary information such as position held, hire date and rate of pay.
- Three (3) out of fifteen (15) employees tested did not prepare a timesheet.
- Five (5) employee's timesheets/timecards were not signed by their immediate supervisor and/or the County Judge/Executive.
- Various employee withholdings did not agree to vendor invoices withholding amounts.

In addition the Fiscal Court's personnel policy indicates the county will pay 100% of employee health insurance for single coverage but testing revealed the county pays 80% and the employee pays 20% and any additional coverage is paid by the employee.

KRS 337.320(1)(a, b, c) requires that "every employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) the hours worked each day and each week by each employer; (c) and such other information as the executive director requires." Timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. The employee and the appropriate supervisor should sign all timesheets.

We recommend the Fiscal Court strengthen internal controls over the payroll process to ensure timecards/timesheets are prepared each pay period for all employees except elected officials, are submitted and signed by employees, and approved by supervisors. We also recommend personnel files be updated to include hire date, position title/description, pay rates, state/federal withholding and citizenship forms, authorization for deductions, and any waivers applicable to payroll. In addition, we recommend a periodic review of compensated absences to ensure employees are not being paid for time not earned. Finally, we recommend the Fiscal Court review their administrative code to ensure compliance with their code.

County Judge/Executive Wright's response: The official did not respond.

Internal controls over updating and maintaining capital assets addition list should be strengthened and insurance policy should be updated. During our review of capital asset additions, we noted the additions listing was not complete for fiscal year ended June 30, 2012. We found additional capital assets that needed to be included on the listing. We also reviewed the insurance policy statement of values and noted there were capital asset additions that were not included. In addition, several items tested were not properly supported and/or approved.

We recommend all assets purchased during the fiscal year meeting the capitalization thresholds for each category be included on the capital assets additions list and included on the Fiscal Court's insurance policy at the correct values. We further recommend that all capital assets purchased be properly supported and/or approved by fiscal court.

County Judge/Executive Wright's response: This is being corrected.

The audit report can be found on the [auditor's website](#).

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

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